

BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF  
SOUTH CAROLINA

In Re:

Farmers Telephone Cooperative, Inc.        )  
  ) DOCKET NO. 2004-110-C  
  )

**TESTIMONY OF**  
**ALLEN G. BUCKALEW**  
**ON BEHALF OF**  
**THE SOUTH CAROLINA**  
**DEPARTMENT OF CONSUMER AFFAIRS**

**JUNE 23, 2004**

1                                   **I. QUALIFICATIONS AND INTRODUCTION**

2   **Q.   PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**  
3       **ADDRESS.**

4   A.   My name is Allen G. Buckalew. I am an Economist specializing in the  
5       telecommunications industry at J.W. Wilson & Associates, Inc. Our offices are at  
6       1601 North Kent Street, Rosslyn Plaza C – Suite 1104, Arlington, VA 22209.

7   **Q.   PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.**

8   A.   I hold an A.A. and a B.S. degree with high honors, both from the University of  
9       Florida, and a M.S. degree from George Washington University. My major areas  
10      of concentration were economics and telecommunications.

11   **Q.   HOW HAVE YOU BEEN EMPLOYED IN THE PAST?**

12   A.   Before I entered the University of Florida, I worked for four years in Naval  
13      Telecommunications. After graduating from the University of Florida, I worked  
14      for four years at the Federal Communications Commission (“FCC”) as an Industry  
15      Economist in the Common Carrier Bureau and was employed extensively in areas  
16      involving telecommunications, economics, accounting, engineering, and policy  
17      matters. For example, one of my major projects was “The Economic Implications  
18      and Interrelationships Arising from Policies and Practices Relating to Customer

1 Interconnection, Jurisdictional Separations and Rate Structures,” (Docket 20003).  
2 This case opened the terminal equipment (e.g., telephone sets, and private branch  
3 exchanges (“PBXs”)) market in the United States to competition. I also provided  
4 economic analysis in several rate cases. For example, “Communications Satellite  
5 Corporation, Investigation into Charges, Practices, Classifications, Rates and  
6 Regulations,” (Docket 16070). My major responsibility was to serve as economic  
7 advisor and analyst for the Common Carrier Bureau.

8 After the FCC, I was appointed Associate Director for Telecommunications  
9 Research of the National Regulatory Research Institute at Ohio State University.  
10 My responsibilities at NRRI focused on telecommunications policy as seen from  
11 an analytical perspective that combined accounting, engineering, and economic  
12 disciplines. During my employment at the Institute, I completed several studies  
13 for state public utility commissions, including “The Impact of Measured  
14 Telephone Rates on Telephone Usage of Government and Nonprofit  
15 Organizations” (for the Public Utilities Commission of Ohio) and “Toward An  
16 Analysis of Telephone License Contracts and Measured Rates” (for the Maryland  
17 Public Service Commission).

18 In addition, I have provided several state Commissions with technical and  
19 economic assistance. This assistance was related to identifying, explaining and  
20 analyzing major issues in telecommunications cases. Since joining J.W. Wilson &

1 Associates, Inc. in May 1980, I have provided economic analysis in numerous  
2 proceedings in most of the States of the United States, Canada, Bolivia, Nepal,  
3 Egypt, and Tanzania. I have provided analysis for the Federal Communications  
4 Commission and the United States Department of Justice. For example, I  
5 analyzed the separation process of the FCC in September 1980, in the report  
6 entitled: "A Study of Jurisdictional Separations to Compare AT&T's Interstate  
7 Settlements Information System with the Separations Manual and Division of  
8 Revenue Process." In addition, I testified on behalf of the Department of Justice  
9 in the case that broke up the Bell system. In addition, I have worked for numerous  
10 State Attorneys General. For example, I evaluated the merger proposal of Bell  
11 Atlantic and NYNEX for the National Association of Attorneys General, and the  
12 Bell Atlantic and GTE merger proposal for the Pennsylvania Attorney General. I  
13 also analyzed the merger proposal of MCI and WorldCom for the California  
14 Public Utilities Commission.

15 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS**  
16 **AND HONOR SOCIETIES?**

17 A. Yes. I am a member of the Society of Depreciation Professionals, the American  
18 Economic Association, a Life Member of the Institute of Business Appraisers,  
19 Omicron Delta Epsilon (an international honor society in economics) and Beta  
20 Gamma Sigma (an honor society in business).

1 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR PROFESSIONAL**  
2 **RESPONSIBILITIES TO DATE?**

3 A. Yes. My primary responsibilities have been to supervise and actively participate  
4 in public utility regulatory policy research, especially in the telecommunications  
5 field. These responsibilities require the use and application of economic,  
6 accounting, and engineering analyses.

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

8 A. I present this testimony on behalf of the South Carolina Department of Consumer  
9 Affairs.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. I was asked to examine the request of Farmers Telephone Cooperative, Inc.  
12 (Farmers or Company) to write-off its EWSD Central Office Switching (Digital  
13 Switching) investment at an accelerated rate of 25% per year.

14 **Q. DO YOU AGREE WITH THIS CHANGE?**

15 A. No. Farmers' only justification is that it believes that it needs to quickly deploy  
16 soft switches to save some GR303 interface costs. Soft switching supports packet  
17 switching. The existing telephone system is a circuit switching system that is  
18 transforming into a packet switching network similar to Internet communications.

1 Farmers offers little justification for the immediate move to soft switching. It has  
2 provided unsupported estimates of GR303 interface costs of \$2,500 each, which  
3 may grow to a cost of \$750,000. Farmers' analysis, if true, would indicate that it  
4 erred in the purchase of the digital switching facilities, which it now wants to  
5 quickly remove from its books.

6 Packet switching has been around for years. There is a transition in the telephone  
7 network toward packet switching. However, the motives for this transition are  
8 more related to adding competitive services than maintaining the voice grade  
9 telephone system. Telephone companies are moving to soft switching in order to  
10 compete with the other modes of providing communication and entertainment  
11 services, like VoIP, video on demand and data communication, but they are doing  
12 it as they retire their existing equipment.

13 **Q. DOES FARMERS' REQUEST FALL WITHIN THE RANGE FOR**  
14 **DEPRECIATION RATES FOR SWITCH EQUIPMENT?**

15 A. No. Farmers' request is outside the normal depreciation range accepted by the  
16 FCC. The low end of the FCC range is a 12-year life and the high end is 18 years.  
17 A four-year write-off as requested by Farmers should be rejected.

1   **Q.   DO EXISTING RATEPAYERS NEED SOFT SWITCHING?**

2   A.   No. Packet switching is not necessary for today's voice network.

3   **Q.   HOW WILL THIS PROPOSAL IMPACT RATEPAYERS?**

4       According to Farmers' testimony, this proposed change will have no impact on  
5       South Carolina's intrastate financial operations; neither the State USF or Farmers'  
6       rates to its customers will change. It will, however, increase the Company's cost  
7       per access line by \$23.62 annually. Unless there is a specific mechanism to  
8       discount these additional costs from the State USF calculation, the Company  
9       would be eligible for increased support from the State USF under the formula set  
10      forth in state law.

11      In addition, although Farmers' ratepayers will not be impacted with a direct rate  
12      increase, ratepayers in South Carolina and the rest of the nation will increase their  
13      subsidy to Farmers by \$211,921 annually according to information the Company  
14      has provided to the Consumer Advocate. That is the amount of increased support  
15      Farmers projected it would get from the Federal USF based on its most recent  
16      quarterly USF filing.

1    **Q.    WHAT DO YOU RECOMMEND?**

2    A.    Farmers' can implement soft switching without Commission approval and if it  
3           makes good business sense, it should do so. However, regulated depreciation rates  
4           should not change, nor should existing ratepayers be responsible for the soft  
5           switching investment until, through normal depreciation, the existing switching  
6           investment is retired. If the Commission approves Farmers' request, it will be  
7           sanctioning the withdrawal and increase of about \$1 million from the Federal  
8           Universal Service Fund based on artificially inflated depreciation rates. Forcing  
9           South Carolina interstate ratepayers and the rest of the country's ratepayers to  
10          subsidize Farmers' entry into new competitive businesses is an improper cross-  
11          subsidy that is prohibited by state and federal law.

12   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

13   A.    Yes, it does.